Malaysia's Commitment to Green Growth

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Overview and Commentary

Lim Wai Yin
Partner
International & Domestic Tax Advisory
wylim@kpmg.com.my

Key Message

"For Malaysian businesses, the extension of GTFS to 2026 along with the introduction of carbon tax signals a timely opportunity to transform your business and contribute to Malaysia's sustainable growth.

The government has signalled its commitment in green technology investment and it is up to the business community to respond and lead Malaysia's green growth story."

Malaysia's Green Transition

Malaysia is accelerating its journey towards a sustainable, low-carbon economy through progressive policies in Budget 2026, including the extension of the Green Technology Financing Scheme (GTFS), the introduction of carbon tax and enhancement of the existing Green Technology Tax Incentives. These initiatives signal Malaysia's commitment to achieving Net Zero by 2050 and aligning with global ESG trends.

Introduction of Carbon Tax

With the Government reaffirming the introduction of carbon tax in 2026, with an initial focus on the iron, steel and energy sectors, this all the more underscores the importance of GTFS and green incentives to businesses. The exact mechanism of carbon tax has not been announced yet but with a tax imputed on carbon emissions, it could potentially increase the cost to these industries which would then most likely be cascaded down to consumers, including SMEs. Hence, it is hoped that with the GTFS and green incentives put in place, it would help fund and encourage the adoption of green alternatives to ease the transition to a low-carbon economy.

Boosting Green Investment with Tax Incentives

Building on the existing Green Technology Tax Incentives program, the Government proposes that a Green Asset Investment Tax Allowance of 100% (for Own Consumption) be granted to companies using green technology products manufactured locally which are certified by the MyHIJAU Mark. Although specific details of the updates have yet to be announced, this incentive is expected to reduce tax bills for businesses that are investing into green technologies and complements GTFS' objective to make green solutions more advantageous.

GTFS 5.0

In the tabling of Budget 2026 on 10 October 2025, the Government reaffirmed its commitment to green growth by extending the GTFS into its fifth phase—GTFS 5.0—now open until 31 December 2026. Under this latest version of GTFS, a total financing allocation of RM1 billion is available, with government guarantees of up to 80% for green technology projects in the waste sector, and up to 60% for other sectors such as energy, water, transport, and manufacturing. The government guarantee significantly reduces the credit risk for lenders, making it easier for businesses to secure loans on competitive terms.

While the continuation of the government guarantee under GTFS 5.0 remains a valuable feature, the removal of the interest/profit rate rebate under GTFS 5.0 as compared to its predecessors will undoubtedly be felt by businesses seeking more affordable green financing. It is hoped that the government will consider revisiting this aspect to ease the cost burden of Malaysian businesses and accelerate the adoption of green technologies.

Application process and mechanics: How GTFS works for businesses

The GTFS application process begins with businesses submitting their project proposals to the Malaysian Green Technology and Climate Change Corporation (MGTC) for green certification. This certification is a prerequisite, confirming that the project meets the GTFS criteria such as:-

a) Minimises the degradation of the environment;
b) Reduces greenhouse gas emissions;
c) Safe for use and promotes a healthy and improved environment for all forms of life;
d) Conserves the use of energy and natural resources; and
e) Promotes the use of renewable resources.

Once certified, applicants can approach any participating financial institution (PFI) to apply for financing.

Eligibility is broad

Legally registered Malaysian companies with at least 60% Malaysian shareholding can apply. The scheme covers a wide spectrum of green activities, including: -

- **Energy:** Upgrading to energy-efficient equipment, installing solar PV systems, or implementing co-generation in factories.
- **Manufacturing:** Adopting sustainable production methods, retrofitting plants for resource efficiency, or using recycled materials.
- **Transport:** Investing in electric vehicle (EV) fleets, building EV charging infrastructure, or improving public transport systems.
- **Buildings:** Constructing green-certified residential developments or retrofitting existing buildings for energy and water savings.
- **Waste:** Developing waste-to-energy plants, advanced recycling facilities, or sanitary landfills.
- **Water:** Implementing water treatment, recycling, or conservation technologies.

Powering Malaysia's Green Vision

Under the extended GTFS, manufacturers can tap onto financing to install energy-efficient systems, unlocking significant cost savings and reducing emissions. Property developers can build eco-friendly homes and commercial spaces, meeting rising demand for sustainable infrastructure. In the waste sector, companies can leverage the 80% government guarantee to develop facilities like biogas plants, transforming waste into renewable energy.

From solar power to water recycling, GTFS supports a wide range of projects and is not out of reach for SMEs or first-time applicants. The MGTC provides guidance throughout, and the list of PFIs is extensive, covering both conventional and Islamic financing options. Importantly, the scheme is not limited to large corporations—many successful applicants have been SMEs or mid-sized businesses with a clear green agenda.

Your next step: lead the green future

For Malaysian businesses, the extension of GTFS to 2026 and enhancement of the green investment tax incentive, along with the introduction of carbon tax signals a timely opportunity to transform your business and contribute to Malaysia's sustainable growth. Whether you are an SME exploring your first green investment or a larger player scaling up your sustainability agenda, the scheme's broad eligibility and sector coverage mean there is likely a pathway for your project. The government has signalled its commitment; it is now up to the business community to respond, leverage on these green opportunities and lead Malaysia's green growth story.

The tools are in place. The incentives are real. Now is the time for Malaysian businesses to take the lead, embrace sustainability, unlock green financing, and shape the future of our low-carbon economy.

Authors

Lim Wai Yin
Partner
International & Domestic
Tax Advisory
wylim@kpmg.com.my

Ng Sue Lynn
Partner
Indirect Tax
suelynnng@kpmg.com.my

Elliot Voon Pin Chaw
Director
International & Domestic
Tax Advisory
elliotchaw@kpmg.com.my

Ron Lee
Associate Director
International & Domestic
Tax Advisory
kllee@kpmg.com.my

Contact Us

Petaling Jaya Office

Soh Lian Seng
Partner –
Head of Tax and Tax Dispute Resolution
lsoh@kpmg.com.my
+603 7721 7019

Long Yen Ping
Partner –
Head of Global Mobility Services
yenpinglong@kpmg.com.my
+603 7721 7018

Tai Lai Kok
Partner – Head of Corporate Tax
ltai1@kpmg.com.my
+603 7721 7020

Ng Sue Lynn
Partner – Head of Indirect Tax
suelynnng@kpmg.com.my
+603 7721 7271

Bob Kee
Partner – Head of Transfer Pricing
bkee@kpmg.com.my
+603 7721 7029

Outstation Offices

Penang Office

Evelyn Lee
Partner
evewflee@kpmg.com.my
+603 7721 2399

Poh Sin Yue
Executive Director
sypoh@kpmg.com.my
+603 7721 7285

Kuching & Miri Offices

Regina Lau
Partner
reglau@kpmg.com.my
+603 7721 2188

Kota Kinabalu Office

Titus Tseu
Executive Director
titustseu@kpmg.com.my
+603 7721 2822

Johor Office

Ng Fie Lih
Partner
flng@kpmg.com.my
+603 7721 2514

Ipoh Office

Crystal Chuah Yoke Chin
Associate Director
ycchuah@kpmg.com.my
+603 7721 2714

KPMG Offices

Petaling Jaya
Level 10, KPMG Tower,
8, First Avenue, Bandar Utama,
47800 Petaling Jaya, Selangor
Tel: +603 7721 3388
Fax: +603 7721 3399
Email: info@kpmg.com.my

Penang
Level 18, Hunza Tower,
163E, Jalan Kelawei,
10250 Penang
Tel: +604 238 2288
Fax: +604 238 2222
Email: info@kpmg.com.my

Kuching
Level 2, Lee Onn Building,
Jalan Lapangan Terbang,
93250 Kuching, Sarawak
Tel: +6082 268 308
Fax: +6082 530 669
Email: info@kpmg.com.my

Miri
1st Floor, Lot 2045,
Jalan MS 1/2,
Marina Square, Marina Parkcity,
98000 Miri, Sarawak
Tel: +6085 321 912
Fax: +6085 321 962
Email: info@kpmg.com.my

Kota Kinabalu
Lot 3A.01 Level 3A,
Plaza Shell,
29, Jalan Tunku Abdul Rahman,
88000 Kota Kinabalu, Sabah
Tel: +6088 363 020
Fax: +6088 363 022
Email: info@kpmg.com.my

Johor
Level 3, CIMB Leadership Academy,
No. 3, Jalan Medini Utara 1,
Medini Iskandar,
79200 Iskandar Puteri, Johor
Tel: +607 266 2213
Fax: +607 266 2214
Email: info@kpmg.com.my

Ipoh
Level 17, Ipoh Tower,
Jalan Dato' Seri Ahmad Said,
30450 Ipoh, Perak
Tel: +605 253 1188
Email: info@kpmg.com.my

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